

Message Text

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PAGE 01 TOKYO 08863 01 OF 02 171010Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
/115 W

-----127243 171025Z /13

P 170948Z MAY 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 7996
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 01 OF 02 TOKYO 08863

USEEC
USOECN ALSO FOR EMBASSY

E.O. 11652: N/A/
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS --
MAY 11-17

1. SUMMARY: SCALE-BACK OF U.S. TAX CUTS AND DISCOUNT
RATE HIKE WELL RECEIVED IN JAPAN. LATEST MONTHLY ASSESS-
MENTS BY ECONOMIC PLANNING AGENCY (EPA) AND BANK OF
JAPAN (BOJ) SEE MORE PERVASIVE SIGNS OF ECONOMIC RECOVERY.
NEW MACHINERY ORDERS UP STRONGLY IN MARCH WHILE BANKRUPT-
CIES DECLINE IN APRIL. APRIL CUSTOMS FIGURES POINT TOWARD
A REDUCED CURRENT ACCOUNT SURPLUS FOR THE MONTH AS IMPORTS
RISE 5.4 PCT AND EXPORTS SLIP 3.6 PCT (S.A.). WHOLESALE
PRICES DROP 0.4 PCT IN APRIL. NEW THREE-YEAR GOVT BONDS
TO BE ISSUED. END SUMMARY.

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PAGE 02 TOKYO 08863 01 OF 02 171010Z

2. THE ADMINISTRATION DECISION TO SCALE BACK PLANNED U.S.
TAX CUTS AND THE FED BOOST IN THE DISCOUNT RATE HAVE BEEN
WELL RECEIVED IN THE JAPANESE PRESS AND FINANCIAL CIRCLES.
IN REMARKS TO THE PRESS, BOTH BOJ AND MOF OFFICIALS WEL-
COMED THE DISCOUNT RATE HIKE, COMMENTING THAT IT SHOWED
U.S. DETERMINATION TO CONTROL INFLATION AND WOULD REIN-

FORCE THE STABILITY THAT HAS RECENTLY EMERGED IN EXCHANGE MARKETS. FOLLOWING THE ANNOUNCEMENT REGARDING THE TAX PACKAGE, EDITORIAL WRITERS STRUCK A SIMILAR THEME, COMMENTING THAT THE FED AND THE ADMINISTRATION WERE NOW WORKING IN TANDEM TO CONTROL INFLATION.

3. ECONOMIC PLANNING AGENCY (EPA) IN ITS MONTHLY ECONOMIC REPORT RELEASED MAY 12 SAID SIGNS OF RECOVERY ARE EVIDENT AND SPREADING OVER WIDER SECTORS OF THE NATION'S ECONOMY. THE MAY EPA REPORT HIGHLIGHTED EVIDENCE OF RECOVERY IN PERSONAL CONSUMPTION IN ADDITION TO THE GROWING PUBLIC SECTOR DEMAND AND STEADY PROGRESS IN DESTOCKING NOTED IN PRECEDING SEVERAL MONTHS. HOUSEHOLD REAL CONSUMPTION EXPENDITURES PICKED UP SLIGHTLY IN FEB (UP 3.7 PCT OVER A YEAR EARLIER COMPARED TO THE 2.8 PCT INCREASE IN JAN) WHILE YEAR-OVER-YEAR INCREASE IN DEPARTMENT STORE SALES ACCELERATED IN MARCH TO 7.4 PCT FROM 6.4 PCT INCREASE IN FEB. THE MAY EPA REPORT ALSO HIGHLIGHTED RISING INDUSTRIAL OUTPUT AND SHIPMENTS, BULLISH NEW MACHINERY ORDERS, AND SHARP FEB INCREASE IN NEW HOUSING CONSTRUCTION STARTS. HOWEVER, LABOR CONDITIONS HAVE YET TO IMPROVE, EPA SAID. IN SEPARATE REMARKS, EPA DIRECTOR GENERAL MIYAZAWA SAID INDICATORS FOR THE JAN-MARCH QUARTER MAKE IT VIRTUALLY CERTAIN THE OFFICIAL 5.3 PCT GROWTH TARGET FOR JFY 77 WILL BE ACHIEVED. IF TRUE, IT IMPLIES THE GNP DATA FOR JAN-MARCH, TO BE PUBLISHED IN TWO OR THREE WEEKS, WILL SHOW UNCLASSIFIED

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PAGE 03 TOKYO 08863 01 OF 02 171010Z

GROWTH OF MORE THAN 2 PCT FOR THE QUARTER. BANK OF JAPAN, IN ITS MONTHLY ASSESSMENT RELEASED THE SAME DAY, REVIEWED THE SAME EVIDENCE, THOUGH WITH A SLIGHTLY LESS OPTIMISTIC TONE. BOJ REMAINED CAUTIOUS IN PREDICTING STEADY RECOVERY OF DOMESTIC FINAL DEMAND, NOTING THAT TWO-THIRDS OF MARCH INCREASE IN INDUSTRIAL SHIPMENTS WAS ATTRIBUTABLE TO THE AUTO INDUSTRY AND THOSE INDUSTRIES RELATED TO PUBLIC WORKS AND CAPITAL INVESTMENT BY ELECTRIC POWER COMPANIES. BOJ IS ALSO CONCERNED ABOUT ADVERSE IMPACT OF POSSIBLE SLOWING OF EXPORTS DUE TO YEN APPRECIATION. BOJ, HOWEVER, DOUBTED THAT THE PATTERN OF 1977 -- FIRST QUARTER STRENGTH FOLLOWED BY A MID-YEAR HESTIATION -- WOULD BE REPEATED IN 1978 BECAUSE OF THE DIFFERENT CONDITIONS PREVAILING THIS YEAR, PARTICULARLY PROGRESS IN INVENTORY ADJUSTMENT AS WELL AS GREATER INVESTMENT SPENDING BY PUBLIC SECTOR AND ELECTRIC POWER INDUSTRY.

4. NEW PRIVATE MACHINERY ORDERS SPURTED 34 PCT (S.A.) IN MARCH, RECORDING THE FOURTH STRAIGHT MONTH OF ADVANCE. FOR THE JAN-MARCH QUARTER AS A WHOLE, PRIVATE ORDERS ALSO RECORDED STRONG RECOVERY, RISING BY 21.8 PCT OVER THE PRIOR QUARTER'S LEVEL. BY INDUSTRY, XCEPT FOR FOOD

INDUSTRY, ALL MAJOR INDUSTRIES BOTH IN MANUFACTURING AND
NON-MANUFACTURING SECTORS RECORDED SHARP INCREASES DURING
THE FIRST QUARTER. NEW MACHINERY ORDERS PLACED BY GOVT
AND PUBLIC AGENCIES, THOUGH OFF IN MARCH, RECORDED A
STRONG REBOUND OF 19.1 PCT IN THE FIRST QUARTER OF THIS
YEAR.

NEW MACHINERY ORDERS, S.A. (IN BIL YEN; PCT CHANGE FROM
PRIOR PERIOD IN PAREN)

- PRIVATE ORDERS EXCL. GOVT AND PUBLIC
- SHIPS (JEI 337) ORDERS (JEI 335)

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PAGE 01 TOKYO 08863 02 OF 02 171013Z
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UNCLAS SECTION 02 OF 02 TOKYO 08863

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RECENT MONTHS:

JAN	255.0 (5.9)	128.2 (23.7)
FEB	261.9 (2.7)	118.2 (-7.8)
MARCH	350.8 (34.0)	97.4 (-17.5)

RECENT QUARTERS (MONTHLY AVERAGE):

1977:APR-JUNE	250.7 (-4.5)	96.2 (14.7)
JUL-SEP	233.7 (-6.8)	113.8 (18.3)
OCT-DEC	237.5 (1.6)	96.2 (-15.4)

1978:JAN-MARCH 289.2 (21.8) 114.6 (19.1)

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PAGE 02 TOKYO 08863 02 OF 02 171013Z

5. BANKRUPTCIES, N.S.A., DECLINED IN APRIL. THE TWO PRIVATE RESEARCH ORGANIZATIONS WHICH COLLECT STATISTICS PLACED BANKRUPTCY CASES IN APRIL AT 1,341-1,342, N.S.A., DOWN 12 PCT FROM THE PRIOR MONTH'S LEVEL. THE LIABILITIES OF BUSINESS FIRMS DECLARING BANKRUPTCIES DURING THE MONTH ALSO DECLINED 3 PCT FROM MARCH TO \$1,050 MIL EQUIVALENT. ON YEAR-OVER-YEAR COMPARISON, THE NUMBER OF BANKRUPTCY CASES AND THE LIABILITIES DECLARED IN APRIL WERE BELOW THE YEAR-EARLIER LEVEL BY 15 PCT AND 6 PCT, RESPECTIVELY.

6. CUSTOMS TRADE DATA FOR APRIL SHOW IMPORTS RISING 5.4 PCT (S.A.) AND EXPORTS DECLINING 3.6 PCT, POINTING TOWARD A NARROWED CURRENT ACCOUNT SURPLUS IN THE APRIL FIGURES TO BE RELEASED MAY 17 (TOKYO 08665). COMMODITY/AREA TRADE STATISTICS INDICATE THAT DURING THE FIRST FOUR MONTHS OF 1978 MANUFACTURED PRODUCTS AVERAGED ABOUT 23.0 PCT OF ALL IMPORTS AS COMPARED TO AVERAGE FIGURES OF 20.7 PCT IN THE YEARS 1976 AND 1977. PRESS STORIES REPORT THAT MANUFACTURED IMPORTS FROM OTHER ASIAN COUNTRIES HAVE BEEN GROWING IN SUCH ITEMS AS SEMI-FINISHED GOODS AND TEXTILES.

7. WHOLESALE PRICE INDEX DROPPED 0.4 PCT (N.S.A.) IN APRIL, WITH THE ALL COMMODITIES INDEX NOW STANDING AT 105.2, DOWN 2.1 PCT FROM A YEAR EARLIER (TOKYO 08737).

8. MINISTRY OF FINANCE INTENDS TO INTRODUCE A NEW TYPE OF GOVT BOND AND NEGOTIATIONS WITH BANKS AND SECURITIES FIRMS ON THIS ISSUE HAVE BEEN PROGRESSING. ACCORDING TO PRESS REPORTS, NEW 3-YEAR INTEREST-BEARING GOVT BONDS ARE LIKELY TO BE ISSUED IN JUNE THIS YEAR. FOR JFY 78 (APR 78-MAR 79) BOND ISSUES TOTALING ABOUT 11 TRILLION YEN ARE PLANNED TO FINANCE THE BUDGET DEFICIT. OF THIS TOTAL, ONE TRILLION YEN ARE EXPECTED TO BE OBTAINED THROUGH ISSUE

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PAGE 03 TOKYO 08863 02 OF 02 171013Z

OF 3-YEAR BONDS. AT PRESENT THERE ARE ONLY TWO KINDS OF GOVT BONDS, TEN-YEAR COUPON AND FIVE-YEAR DISCOUNT BONDS. MOF INTENDS EVENTUALLY TO FURTHER DIVERSIFY TYPES OF GOVT

BONDS AND PLANS TO INTRODUCE TWO AND FOUR-YEAR BONDS. IT IS ALSO REPORTED THAT MOF WILL SHIFT TO A PUBLIC TENDER SYSTEM FOR THE DISTRIBUTION OF THE 3-YEAR BONDS, GIVING AUTHORIZED MARKET PARTICIPANTS AN OPPORTUNITY TO BID FOR THE SECURITIES. CURRENTLY GOVT BONDS ARE ALLOCATED TO PRIVATE FINANCIAL INSTITUTIONS UNDER A COMPULSORY QUOTA SYSTEM.

9. YUGOSLAV FOREIGN EXCHANGE BANK PLANS TO ISSUE YEN BONDS AROUND END OF JUNE, WHICH WILL BE THE FIRST YEN BOND ISSUE BY A COMMUNIST NATION, LOCAL PRESS REPORTED RECENTLY. ACCORDING TO THESE ACCOUNTS, YUGOSLAV BANK PLANS TO ISSUE YEN BONDS AMOUNTING TO 5 BIL YEN THROUGH PRIVATE PLACEMENT, FOR WHICH DAIWA SECURITIES FIRM WILL BECOME THE MANAGING UNDERWRITER. MINISTRY OF FINANCE REPORTEDLY WELCOMES THIS YUGOSLAV BOND ISSUE AND EXPECTS THAT YEN BOND ISSUES BY COMMUNIST NATIONS WILL HELP EXPAND TRADE BETWEEN JAPAN AND COMMUNIST COUNTRIES BY PROVIDING FUNDS NECESSARY FOR FINANCING SUCH TRANSACTIONS. HUNGARY IS UNDERSTOOD TO HAVE ALSO EXPRESSED A DESIRE TO ISSUE BONDS IN JAPAN. MANSFIELD

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